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CITY OF ST. LOUIS



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FILE COPY

July 23, 2012

Honorable James W. Murphy, Sheriff
City of St. Louis
1114 Market Street, Suite 112
St. Louis, MO 63101

RE: Review of Distributions from Proceeds of Tax Delinquent Land Sales
(Project 2012-39)

Dear Sheriff Murphy:

Enclosed is a report of the review of Distributions from Proceeds of Tax Delinquent Land Sales for the one-year period of January 1, 2011 through December 31, 2011.

The fieldwork was completed on May 11, 2012. Management's responses to the observation and recommendations noted in the report were received on July 13, 2012 and have been incorporated in the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 657-3490.

Sincerely,

Dr. Kenneth M. Stone, CPA, CGMA
Internal Audit Executive

Enclosure

cc: Major George Harsley, Administrative Section Commander
Lt. Raymond Harris, Commander of Services



CITY OF ST. LOUIS

SHERIFF'S OFFICE

REVIEW OF DISTRIBUTIONS FROM PROCEEDS OF TAX DELINQUENT LAND SALES

FOR THE YEAR JANUARY 1, 2011 THROUGH DECEMBER 31, 2011

PROJECT #2012-39

DATE ISSUED: JULY 23, 2012

**Prepared By:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
SHERIFF'S OFFICE
REVIEW OF DISTRIBUTIONS FROM PROCEEDS
OF TAX DELINQUENT LAND SALES
JANUARY 1, 2011 THROUGH DECEMBER 31, 2011**

EXECUTIVE SUMMARY

Purpose

The purpose of this review was to determine if adequate internal control procedures over distributions of tax delinquent land sale proceeds were in place and effectively functioning. Such control procedures should reasonably assure that the distributions made were:

- Adequately supported by records of the applicable land parcel sale proceeds and their appropriate distribution bases, obtained from the land tax sales database(s) maintained by the Sheriff's Office.
- In compliance with applicable Missouri State Statutes, Ordinances of the City of St. Louis and policies and procedures of the Sheriff's Office.

Scope and Methodology

The scope of the review included distributions of tax delinquent land sale proceeds, as indicated by expenditure entries to the special fund "pass-through" account maintained for those proceeds in the City General Ledger, during the period January 1, 2011 through December 31, 2011. The review was confined to evaluating the distribution process for assurance of the expected results. The review procedures included:

- Inquiries of management and staff.
- Observation of relevant processes.
- Reviews for compliance with policies and procedures, as well as applicable laws and regulations.
- Limited tests of related controls.
- Other procedures considered necessary.

Background

The Municipal Land Reutilization Law (City of St. Louis) was established by the Revised Statutes of Missouri (RSMo), Sections 92.700 to 92.920, which also created the Land Reutilization Authority (LRA). LRA manages, auctions, transfers and makes other dispositions of tax delinquent real estate acquired by foreclosure of the applicable tax liens. The statutes also authorize the courts to order the Sheriff to advertise and sell (or attempt to sell) that property at public auction, in an effort to recover the delinquent taxes and incurred collection costs, before turning over any unsold property to LRA.

Exit Conference

An exit conference was conducted at the Sheriff's Office on June 28, 2012. The Sheriff's Office was represented by the Sheriff, the Commander of Services, the Special Consultant to the Sheriff (a Certified Public Accountant), and Land Sales and Executions Deputy. The Internal Audit Section was represented by the Audit Supervisor and the Auditor-in-Charge.

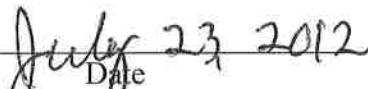
Conclusion

No evidence of non-compliance with the requirements stated above was noted for the reviewed distributions of land sale proceeds. It was noted, however, that the opportunity exists for the Sheriff's Office to improve the internal controls over operational and fiscal activities. The following observation resulted from the review:

Opportunity to improve efficiency of recordkeeping and liability reconciliation (repeated)

Each of these observations is discussed in more detail in the *Detailed Observation, Recommendations and Management's Response* section of this report.


Dr. Kenneth M. Stone, CPA, CGMA
Internal Audit Executive


Date

**CITY OF ST. LOUIS
SHERIFF'S OFFICE
REVIEW OF DISTRIBUTIONS FROM PROCEEDS
OF TAX DELINQUENT LAND SALES
JANUARY 1, 2011 THROUGH DECEMBER 31, 2011**

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OBSERVATIONS

Status of Prior Observations

The following are prior observations, from the Internal Audit report on Land Auction #157, issued December 27, 2011

1. Opportunity to update written procedures (**Resolved**)
2. Opportunity to improve recordkeeping and liability reconciliation (**Not Resolved – See Current Observation**)

Summary of Current Observations

The opportunity exists for the Sheriff's Office to improve the efficiency of controls used to ensure all proceeds from tax delinquent land sales which are deposited in the special fund account are adequately accounted for through their appropriate distribution. The following observation resulted from our review:

- Opportunity to improve recordkeeping and liability reconciliation (**Partially Repeated, Internal Audit Section Observation and Review of Tax Delinquent Land Auction dated December 27, 2011**)

This observation is discussed in more detail in the *Detailed Observation, Recommendations and Management's Response* section of this report.

DETAILED OBSERVATION, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

Opportunity To Improve Recordkeeping And Liability Reconciliation (Partially Repeated)

The database program used for tracking status changes of the sold parcels does not yet include the capability of summarizing the cumulative liability amounts due to various creditors from each land auction's proceeds.

The Missouri state audit finding dated March 2010, and follow-up reviews by the Internal Audit Section (IAS) recommended that the Sheriff's Office implement procedures to reconcile its tax delinquent land sales liabilities to the funds held in the City's Land Auction Sales Fund pending distribution.

A database reporting system that readily provides cumulative totals of the various liability categories included in those proceeds would improve the efficiency with which that reconciliation could be accomplished.

Month-end reports that the Sheriff's Office can generate include listings by status (e.g. sold and confirmed with deed recorded, sold and confirmed with deed not recorded, sold but not confirmed, etc.). The Sheriff's Office, however, was not aware of any timetable from the Circuit Court Administrator's Information Technology Department for development of additional report formats to summarize the cumulative categorized liabilities.

Without liability category summaries, the office did not have an efficient system of control in place for tracking the distribution of auction proceeds and reconciling the undistributed funds to the Land Auction Sales Fund. The absence of such reconciliation may lead to improper payments or misappropriation of the auction sales fund.

Recommendations

It is recommended that the Sheriff's Office:

- A. Ensure that the database program used for tracking status changes of the sold parcels includes the capability of summarizing the cumulative liability amounts due to various creditors from each land auction's proceeds.
- B. Ensure that all employees assigned ongoing or temporary responsibility for any of the following functions receive adequate training to effectively use the systems:
 - Making entries to the land sales tracking system
 - Obtaining data from the land sales tracking system, or
 - Supervising such employees
- C. Reconcile monthly the outstanding land auction sales liabilities to the balance in the Land Auction Sales Fund maintained within the City treasury

Management's Response

The Sheriff's database system for Land tax sales has been constantly updated and revised to fulfill the requirements to satisfy the recommendation from both the State of Missouri audit of March 2010 and the current City of St. Louis audit of June 2012. Procedures have been implemented to reconcile the City's Delinquent Land Tax Sales fund and the pending distributions of liabilities.

A database reporting system has been implemented by the Sheriff's Office that will provide cumulative totals of various liability categories, including reconciliation reports of liabilities disbursements.

However, the disbursements of liabilities are encumbered by the Land Tax Sales processes over which the Sheriff's Office has no controls.

The land purchasers in Delinquent Land Tax sales have certain duties and responsibilities to complete a purchase through the court systems which include: obtaining a formal appraisal report, notifying all lien holders of the purchased property and proceeding to file a MOTION TO CONFIRM LAND TAX SALES. A hearing is then scheduled and the Confirmation Hearing is adjudicated.

Only after the affirmative confirmation by the courts, the Collector of Revenue is ordered to return all remaining proceeds from the sale and deliver the copy of the Judicial Order to the Sheriff's office for distribution of funds.

Section 94.840(3) of the Revised Statues of the State of Missouri imposes no time restraints on this process.

The Sheriff's Office has a system in place for proper training on use of the Land Tax Data System. In addition, the Sheriff's Office has been constantly updating the Land Tax Auction Sales data system in cooperation with the Circuit Court Administrator's Information Technology Department. It is estimated that the development and implementation of updated report formats to summarize the cumulative totals of the categorized liabilities should be completed within the next six months.